1. Marginal utility measures:
A. The slope of the indifference curve.
B. **The additional satisfaction from consuming one more unit of a good.**
C. The slope of the budget line.
D. The marginal rate of substitution.
2. Which of the following best expresses the law of diminishing marginal utility?
A. The more a person consumes of a product, the smaller becomes the utility which he receives from its consumption.

B. **The more a person consumes of a product, the smaller becomes the additional utility which she receives as a result of consuming an additional unit of the product.**
C. The less a person consumes of a product, the smaller becomes the utility which she receives from its consumption.
D. The less a person consumes of a product, the smaller becomes the additional utility which he receives as a result of consuming an additional unit of the product.
3. A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:
A. A budget line.
B. An isoquant.
C. **An indifference curve.**
D. A demand curve.
4. The marginal rate of substitution:
A. May rise or fall, depending on the slope of the budget line.
B. Rises as you move downward along an indifference curve.
C. **Falls as you move downward along an indifference curve.**
D. Remains the same along a budget line.
5. Which of the following is a characteristic of the indifference curves?
A. They are concave to the origin.
B. **They are convex to the origin.**
C. Curves closer to the origin have the highest level of total utility.
D. Curves closer to the origin have the highest level of marginal utility.

6. In the diagram given below, the budget line is best represented by the line:

A. AB
B. AD
C. **FG**
D. DG
7. The endpoints (horizontal and vertical intercepts) of the budget line:
A. Measure its slope.
B. Measure the rate at which one good can be substituted for another.
C. Measure the rate at which a consumer is willing to trade one good for another.
D. **Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.**

8. If prices and income in a two-good society double, what will happen to the budget line?
A. The intercepts of the budget line will increase.
B. The intercepts of the budget line will decrease.
C. The slope of the budget line may either increase or decrease.
D. **There will be no effect on the budget line.**

9. If Px = Py, then when the consumer maximizes utility,
A. X must equal Y.
B. **MU(X) must equal MU(Y).**
C. MU(X) may equal MU(Y), but it is not necessarily so.
D. X and Y must be substitutes.

10. The difference between what a consumer is willing to pay for a unit of a good and what must be paid when actually buying it is called:
A. Producer surplus.
B. **Consumer surplus.**
C. Cost-benefit analysis.
D. Net utility.

11. Which of following is a key assumption of a perfectly competitive market?
A. Firms can influence market price.
B. Commodities have few sellers.
C. It is difficult for new sellers to enter the market.
D. **Each seller has a very small share of the market.**

12. A firm maximizes profit by operating at the level of output where:
A. Average revenue equals average cost.
B. Average revenue equals average variable cost.
C. Total costs are minimized.
D. **Marginal revenue equals marginal cost.**

13. The demand curve facing a perfectly competitive firm is:
A. Downward-sloping and less flat than the market demand curve.
B. Downward-sloping and more flat than the market demand curve.
C. **Perfectly horizontal.**
D. Perfectly vertical.

14. The monopolist has no supply curve because:
A. **The quantity supplied at any particular price depends on the monopolist's demand curve.**
B. The monopolist's marginal cost curve changes considerably over time.
C. The relationship between price and quantity depends on both marginal cost and average cost.
D. There is a single seller in the market.

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15. A doctor sizes up patients' income and charges wealthy patients more than poorer ones. This pricing scheme represents a form of:
A. **First-degree price discrimination.**
B. Second-degree price discrimination.
C. Third-degree price discrimination.
D. Pricing at each consumer’s reservation price.

16. For which of the following market structures is it assumed that there are barriers to entry?
A. Perfect competition
B. Monopolistic competition
C. **Monopoly**
D. All of the above

17. A market with few entry barriers and with many firms that sell differentiated products is:
A. Purely competitive.
B. A monopoly.
C. **Monopolistically competitive.**
D. Oligopolistic.

18. Welfare economics is a branch of economics dealing with:
A. Social issues.
B. **Normative issues.**
C. Political issues.
D. None of the given options.
19. _____ are goods that people must get a flavor of before they can consider buying them.
A. **Experience goods.**
B. Giffen goods.
C. Normal goods.
D. None of the given options.
20. Which of the following does not refer to macroeconomics?
A. The study of aggregate level of economic activity.
B. The study of causes of unemployment.
C. The study of causes of inflation.
D. **The study of the economic behavior of individual decision-making units such as consumers, resource owners and business firms.**
21) ---------- is the entire satisfaction one derives from consuming goods or services:
A. Total utility
B. Scarcity
C. Marginal utility
D. Rationing
22) The law of diminishing marginal utility states that:
A. As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit falls

B. As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit rises

C. As consumer consumes more and more units of any commodity, the utility that consumer derives from each additional unit remains the same
D. As consumer consumes less and less units of any commodity, the utility that consumer derives from each additional unit falls
23) The equi marginal principle states that:
A. $\frac{MUa}{Pa} = \frac{MUb}{Pb} = \frac{MUc}{Pc} = \text{----------} = \frac{MUn}{Pn}$
B. $\frac{MUa}{Pa} > \frac{MUb}{Pb} > \frac{MUc}{Pc} > \text{----------} > \frac{MUn}{Pn}$
C. $\frac{MUa}{Pa} < \frac{MUb}{Pb} < \frac{MUc}{Pc} < \text{----------} < \frac{MUn}{Pn}$
D. None of the given options
24) Marginal utility measures:
A. The slope of the indifference curve
B. The additional satisfaction from consuming one more unit of a good
C. The slope of the budget line

D. The marginal rate of substitution

25) ---------- is the difference between willingness to pay and what the consumer actually has to pay:

A. Total Utility

B. Consumer surplus

C. Producer surplus

D. Total product

26) ---------- is the ratio of the probability of success to the probability of failure:

A. Input output ratio

B. Odds ratio

C. Price earning ratio

D. Price sales ratio

27) ---------- operate under the principle of law of large numbers:

A. Banks

B. Insurance companies

C. Government sponsored enterprises

D. None of the given options

28) The optimum consumption point for the consumer is a point where:

A. The slopes of the indifference curve and budget line are equal

B. The slopes of the indifference curve and total product are equal

C. The slopes of the total utility curve and budget line are equal

D. The slopes of the total product curve and total utility curve are equal

29) A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:

A. A budget line

B. An isoquant

C. An indifference curve

D. A demand curve

30) The slope of an indifference curve reveals that:

A. The preferences are complete

B. The marginal rate of substitution of one good for another good

C. The ratio of market prices

D. That preferences are transitive

31) The law of diminishing returns applies to

A. The short run only

B. The long run only

C. Both the short and the long run

D. Neither the short nor the long run

32) In the long run:

A. All inputs are fixed

B. All inputs are variable

C. At least one input is variable and one input is fixed

D. At most one input is variable and one input is fixed

33) According to the law of diminishing returns

A. The total product of an input will eventually be negative

B. The total product of an input will eventually decline

C. The marginal product of an input will eventually be negative

D. The marginal product of an input will eventually decline

34) The slope of the total product curve is the

A. Average product

B. Slope of a line from the origin to the point

C. Marginal product

D. Marginal rate of technical substitution

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35) The short run is

A. Less than a year

B. Three years
C. However long it takes to produce the planned output
D. A time period in which at least one input is fixed

36) The marginal product of an input is
A. Total product divided by the amount of the input used to produce this amount of output
B. The addition to total output that adds nothing to profit
C. The addition to total output due to the addition of one unit of all other inputs
D. The addition to total output due to the addition of the last unit of an input, holding all other inputs constant

37) Average product is defined as:
A. Total product divided by the total cost
B. Total product divided by marginal product
C. Total product divided by the variable input
D. Marginal product divided by the variable input

38) Marginal product crosses the horizontal axis (is equal to zero) at the point where:
A. Average product is maximized
B. Total product is maximized
C. Diminishing returns set in
D. Output per worker reaches a maximum

39) The law of diminishing returns refers to diminishing
A. Total returns
B. Marginal returns
C. Average returns
D. All of the given options

40) The law of diminishing returns assumes that
A. There is at least one fixed input
B. All inputs are changed by the same percentage
C. Additional inputs are added in smaller and smaller increments
D. All inputs are held constant

41. The study of economics is primarily concerned with:
A. Demonstrating that capitalistic economies are superior to socialistic economies.
B. Determining the most equitable distribution of society's output.
C. Keeping private businesses from losing money.
D. **Choices which are made in seeking to use scarce resources efficiently.**

42. Opportunity cost is:
A. **That which we forego, or give up, when we make a choice or a decision.**
B. A cost that cannot be avoided, regardless of what is done in the future.
C. The additional cost of producing an additional unit of output.
D. The additional cost of buying an additional unit of a product.

43. Periods of less than full employment correspond to:
A. Points outside the ppf.(production possibility frontier).
B. **Points inside the ppf.**
C. Points on the ppf.
D. Either points inside or outside the ppf.

44. In a free-market economy the allocation of resources is determined by:
A. votes taken by consumers
B. a central planning authority
C. **Consumer preferences**
D. the level of profits of firms

45. A firm produces chairs. An economist working for the firm predicts that 'if people's incomes rise next year, then the demand for our chairs will increase, ceteris paribus.' The accuracy of the economist's prediction depends on whether the chairs that firm produces:
A. Have many complementary goods.
B. Have few substitutes.
C. Have few complementary goods.
D. **Are normal goods**.

46. According to law of demand, a demand curve is:
A. Horizontal
B. Vertical
C. **Downward sloping**
D. Directly related to law of supply

47. A rational decision maker will take only those actions for which the marginal benefit:
A. Is positive.
B. Is at its maximum level.
C. Is less than marginal cost.
D. **Is greater than or equal to the expected marginal cost.**

48. All of the following are determinants of supply except:
A. Price
B. **Income levels**
C. Objectives of the firm
D. Level of technology

49. Normative economics:
A. Deals solely with the facts
B. Is never studied in the colleges

C. **Involves opinions and interpretations**
D. Is clearly preferable to positive economics

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50. The transformation of resources into economic goods and services is:
A. Technical efficiency
B. Input
C. **Production**
D. Increasing returns
51. The price elasticity of demand is defined as the absolute value of the ratio of:
A. Price over quantity demanded.
B. Change in price over change in quantity demanded.
C. Percentage change in price over the percentage change in quantity demanded.
D. **Percentage change in quantity demanded over the percentage change in price.**
52. If a good is a luxury, its income elasticity of demand is:
A. positive and less than 1
B. negative but greater than -1
C. **positive and greater than 1**
D. zero
53. A resource is something that:
A. **Is used to produce goods and services.**
B. Is provided by nature, not made by society.
C. Exists in unlimited quantities.
D. Must be produced by a firm.
54. If the cross-price elasticity between home personal computers and video game units for TV is positive, one can conclude that
A. **These products are substitutes for one another.**
B. These products complement one another.
C. These products are over-priced.
D. Consumers are irrational.
55. As one moves along a convex isoquant, which of the following does not change?
A. The marginal rate of technical substitution.
B. The capital-labor ratio.
C. The marginal product of labor relative to the marginal product of capital.
D. **The level output produced.**
56. Of the following goods, the one where the law of diminishing marginal utility is least likely to apply is:
A. Water.
B. **Cigarettes.**
C. Toothpaste.
D. Rap music.
57. The optimal purchasing rule states that total utility is maximized when a consumer:
A. Consumes as much as possible of all good.
B. Consumes the same quantities of all goods.
C. Completely uses up their income.
D. **Consumes to the point where the marginal utility per dollar spent on all goods is the same.**
58. Which of the following pairs come closest to being complementary goods?
A. Apples and oranges.
B. **Cameras and films.**
C. A free hotel room and a free meal.
D. Cream and milk.
59. A Giffen good:
A. Is a good that people buy more of as their incomes fall.
B. **Is a good which people buy more of as its price increases.**
C. Is a good on which people spend a small portion of their income.
D. Has a vertical demand curve.
60. When an industry expands its costs of production will:
A. **Increase.**
B. Decrease.
C. stay the same.
D. none of the above.
61.Which of the following would shift the demand curve for new textbooks to the right?
a. A fall in the price of paper used in publishing texts.
b. A fall in the price of equivalent used text books.
c. An increase in the number of students attending college.
d. A fall in the price of new text books.
62. Which of these measures the responsiveness of the quantity of one good demanded to an increase in the price of another good?
a. Price elasticity.
b. Income elasticity.
c. Cross?price elasticity.
d. Cross?substitution elasticity.
63.Assume that the current market price is below the market clearing level. We would expect:
a. A surplus to accumulate.

b. Downward pressure on the current market price.
c. Upward pressure on the current market price.
d. Lower production during the next time period.

64.The income elasticity of demand is the:
a. Absolute change in quantity demanded resulting from a one?unit increase in income.
b. Percent change in quantity demanded resulting from the absolute increase in income.
c. Percent change in quantity demanded resulting from a one percent increase in income.
d. Percent change in income resulting from a one percent increase in quantity demanded.

65. Which of the following statements about the diagram below is true?
a. Demand is infinitely elastic.
b. Demand is completely inelastic.
c. Demand becomes more inelastic the lower the price.
d. Demand becomes more elastic the lower the price.

66. In the long run, new firms can enter an industry and so the supply elasticity tends to be:
a. More elastic than in the short?run.
b. Less elastic than in the short?run.
c. Perfectly elastic.
d. Perfectly inelastic.

67. A curve that represents all combinations of market baskets that provide the same level of utility to a consumer is called:
a. A budget line.
b. An isoquant.
c. An indifference curve.
d. A demand curve.

68. The magnitude of the slope of an indifference curve is:
a. Called the marginal rate of substitution.
b. Equal to the ratio of the total utility of the goods.
c. Always equal to the ratio of the prices of the goods.
d. All of the above.

69. Which of the following is a positive statement?
a. Intermediate microeconomics should be required of all economics majors in order to build a solid foundation in economic theory.
b. The minimum wage should not be increased, because to do so would increase unemployment.
c. Smoking should be restricted on all airline flights.
d. **None of the above.**

70. A supply curve reveals:
a. The quantity of output consumers are willing to purchase at each possible market price.
b. The difference between quantity demanded and quantity supplied at each price.
c. The maximum level of output an industry can produce, regardless of price.
d. **The quantity of output that producers are willing to produce and sell at each possible market price.**

71. The slope of an indifference curve reveals:
a. That preferences are complete.
b. **The marginal rate of substitution of one good for another good.**
c. The ratio of market prices.
d. That preferences are transitive.

Good Y

45°

Good X

A

72. Alvin's preferences for good X and good Y are shown in the diagram below.

Based on Figure it can be inferred that:
a. Alvin does not consider good X as "good."
b. Alvin will never purchase any of good Y.
c. Alvin regards good X and good Y as perfect substitutes.
d. **Alvin regards good X and good Y as perfect complements.**

73. An increase in income, holding prices constant, can be represented as:
a. A change in the slope of the budget line.
b. **A parallel outward shift in the budget line.**
c. An outward shift in the budget line with its slope becoming flatter.
d. A parallel inward shift in the budget line.

74. If prices and income in a two-good society double, what will happen to the budget line?
a. The intercepts of the budget line will increase.

b. The intercepts of the budget line will decrease.
c. The slope of the budget line may either increase or decrease.
d. **There will be no effect on the budget line.**

75. An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximizing market basket?
a. MRSxy is at a maximum.
b. Px/Py = money income.
c. MRSxy = money income.
d. **MRSxy = Px/Py.**

76. Which of the following is true regarding income along a price consumption curve?
a. Income is increasing.
b. Income is decreasing.
c. **Income is constant.**
d. The level of income depends on the level of utility.

77. An individual with a constant marginal utility of income will be
a. Risk averse.
b. **Risk neutral.**
c. Risk loving.
d. Insufficient information for a decision.

78. A function that indicates the maximum output per unit of time that a firm can produce, for every combination of inputs with a given technology, is called:
a. An isoquant.
b. A production possibility curve.
c. **A production function.**
d. An isocost function.

79. The short run is:
a. Less than a year.
b. Three years.
c. However long it takes to produce the planned output.
d. **A time period in which at least one input is fixed.**

80. The rate at which one input can be reduced per additional unit of the other input, while holding output constant, is measured by the:
a. Marginal rate of substitution.
b. **Marginal rate of technical substitution.**
c. Slope of the isocost curve.
d. Average product of the input.

ELASTICITIES

81. Alpha Corporation produces chairs. An economist working for the firm predicts that 'if people's incomes rise next year, then the demand for our chairs will increase, ceteris paribus.' The accuracy of the economist's prediction depends on whether the chairs Alpha produce
A. are normal goods.
B. have few complementary goods.
C. have many complementary goods.
D. have few substitutes.

82 When the decrease in the price of one good causes the demand for another good to decrease, the goods are
A. complements.
B. normal.
C. inferior.
D. substitutes.

83 The price elasticity of demand is the
A. ratio of the percentage change in quantity demanded to the percentage change in price.
B. ratio of the change in price to the change in quantity demanded.
C. ratio of the change in quantity demanded to the change in price**.**
D. ratio of the percentage change in price to the percentage change in quantity demanded.

84 The price of apples falls by 5% and quantity demanded increases by 6%. Demand for apples is:
A. inelastic.
B. perfectly inelastic.
C. elastic.
D. perfectly elastic.

85 The price of bread increases by 22% and the quantity of bread demanded falls by 25%. This indicates that demand for bread is
A. elastic.
B. inelastic.
C. unitarily elastic
D. perfectly elastic

86 If the cross-price elasticity of demand between two goods is negative, then the two goods are
A. unrelated goods.
B. substitutes.
C. complements.
D. normal goods.

87 If the quantity demanded of beef increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between beef and chicken is

A. -4.
B. 4.
C. -0.25.
D. 0.25.

88 The government is considering placing a tax on cigarettes to raise revenue to finance health-care projects. The demand for cigarettes is price inelastic. Which of the following statements is TRUE?
A. This is a very good way to raise revenue both in the short term and in the long term because there are no substitutes for cigarettes.
B. **The tax on cigarettes will raise substantial revenue in the short term, but may not raise as much revenue as anticipated in the long term because the demand for cigarettes is likely to become more elastic over time**.
C. This tax will not raise much revenue either in the short term or the long term since demand is price inelastic.
D. No tax revenue can be raised in this way because sellers of cigarettes will just lower their price by the amount of the tax and therefore the price of cigarettes to consumers will not change.

89 The burden (incidence) of a tax will fall mainly on the producers if:
A. The producers are the ones legally obliged to pay the tax**.**
B. Supply is inelastic and demand is elastic.
C. Demand is inelastic and supply is elastic.
D. There are many producers in the market.

90 Income elasticity of demand is the % change in quantity demanded divided by the % change in income. Which type of goods have negative income elasticity of demand?
A. Inferior goods.
B. Normal goods.
C. Substitute goods.
D. Complementary goods.

91. Each type of elasticity has its own set of determinants. You are given four determinants below. Match them with the three types of elasticity given:
A. The number and closeness of substitute goods:
B. Time:
C. **The proportion of income spent on the goods**:
D. The rate at which the desire for a good is satisfies as consumption increases:
PES: price elasticity of supply
IED: Income elasticity of demand
PED: price elasticity of demand

A. **i = IED; ii = PES; iv: PED**
B. i = IED, ii, iii, iv = PED
C. i, ii and iii = PED; iv = IED; ii = PES
D. None of the above
where "=" means "is a determinant of"

92 If total revenue rises by 10% when price increases by 5%, this means:
A**. demand is price inelastic**
B. demand is price elastic
C. demand is unit elastic
D. demand is perfectly inelastic

93. If a 5% increase in price causes no change in total revenue, this means:
A. demand is price inelastic
B. demand is price elastic
C. **demand is unit elastic**
D. demand is perfectly inelastic

94. Which of the following statements is true:
A. Because a straight line demand curve has constant slope, price elasticity of demand will remain constant as we move along various points on the curve.
B. Three supply curves, with different slopes, but all originating from the origin will have different price elasticities of supply.
C**. We only need to know the magnitude of the elasticity, not its sign, to determine whether it falls in the elastic or inelastic range**
D. A straight line demand curve with a slope of -1 delivers unit elasticity.

95. When firms advertise their product, they are trying to:
A. Shift the demand curve to the right
B. Make the demand curve steeper
C. Make demand for the product more inelastic
D. **All of the above**

96. "It is possible for milk to be treated as an inferior good and a normal good by different population segments in the same economy."
A. False. A good can only have one characterization in an economy, normal or inferior, not both
B. False. Milk is always and everywhere a normal good.
C. **True. Rich people will spend less on milk as their incomes increase, while poor people will spend more on milk as their incomes increase.**
D. True. Some people in the economy like milk, others don't.

97 A lower income country, Z, that exports primary products and imports luxury goods eventually runs into balance of payments problems because:
A. the income elasticity of demand for Z's exports is low, while the income elasticity of demand for Z's imports is high
B. Z's exports grow at a slower rate than the rate of growth of the world income; Z's imports rise at a faster rate than the rate of growth of Z's income

C. Z's terms of trade (price of exports / price of imports) deteriorate
D. All of the above.

98 "The government of a lower income country, K, is worried that rising domestic prices will lead to higher imports and therefore cause balance of payments problems." This most closely illustrates which elasticity concept:
A. Price elasticity of demand
B. Price elasticity of supply
C. Income elasticity of demand
D. Cross price elasticity of demand

BACKGROUND TO DEMAND

99 Economists use the term utility to mean
A. the value of a product before it has been advertised.
B. the satisfaction a consumer obtains from a good or service.
C. any characteristic of a good or service which cannot be measured.
D. the contribution a good or service makes to social welfare.

100 Economists use the term marginal utility to mean
A. additional satisfaction gained divided by additional cost of the last unit.
B. additional satisfaction gained by the consumption of one more unit of a good.
C. total satisfaction gained when consuming a given number of units.
D. the process of comparing marginal units of all goods which could be purchased.

101 The law of diminishing marginal utility states that
A. total satisfaction will decrease as more units of the good are consumed.
B. the satisfaction derived from each additional unit of a good consumed will decrease.
C. total utility will become negative.
D. Both the first and third option.

102 By total consumer surplus economists mean (in P-Q space)
A. The area of the triangle formed by the demand curve, the price axis and the equilibrium price line.
B. the area between the average revenue and marginal revenue curves.
C. the difference between the maximum price the consumer is willing to pay for a good (vertical-intercept of demand curve) and the minimum price the producer is willing to sell at (vertical intercept of supply curve).
D. A and C.

103 The equation for Rida's demand curve for bouquets of flowers is P = 40 - 2Q. If the price of a bouquet is Rs18, her consumer surplus will be
A. Rs198
B. Rs121.
C. Rs11.
D. Rs242.

104 The price of an ice cream cone is $1.50 and you buy three ice cream cones per week. If the price of an ice cream cone falls to $1.25 and you still buy three ice cream cones per week, which of the following is (are) correct?
A. The marginal utility of the fourth ice cream cone per week must be worth less than $1.25 to you.
B. The total utility of the four ice cream cones per week must be worth less than $5.75 (=3*$1.50 +$1.25) to you.
C. The total utility of the four ice cream cones per week must be less than $5.00 (3*$1.25+$1.25) to you.
D. None of the above.

105 Economists have used the idea of diminishing marginal utility to explain why
A. demand curves slope downwards.
B. demand curves become flatter at lower prices.
C. demand curves are inelastic.
D. Both the first and second option.

106 A consumer will buy more units of a good if the value of the good's
A. total utility is greater than price.
B. marginal utility is less than price.
C. marginal utility is greater than price.
D. total utility is less than price.

107 The diamond-water paradox can be explained by suggesting that the price of a product is determined by
A. consumer incomes.
B. its marginal utility.
C. consumer surplus.
D. diminishing marginal utility.

108 A utility-maximising consumer changes her spending on goods X and Y until
A. MUx = MUy
B. Px (MUx) = Py(MUy)
C. TUx/Px = TUy/Py
D. MUx (Py) = MUy (Px)

109 The MUx/MUy ratio is 10 and the Px/Py ratio is 8, so the consumer should buy
A. less X and more Y.
B. more X and more Y.
C. more X and less Y.
D. less X and less Y.

110 Economists define an indifference curve as the set of points
A. at which the consumer is in equilibrium as the consumer's income changes.
B. which yield the same marginal utility.
C. which yield the same total utility.
D. At which the consumer is in equilibrium as prices change.

111 Which of the following is a property of an indifference curve?
A. the marginal rate of substitution is constant as you move along an indifference curve.
B. marginal utility is constant as you move along an indifference curve.
C. it is convex to the origin.
D. total utility is greatest where the 45 degree line cuts the indifference curve.

112 The limits imposed on household choices by income, wealth, and product prices are captured by the
A. budget constraint.
B. choice set.
C. assumption of perfect knowledge.
D. preference set.

113 Waris has Rs5000 a week to spend on units of food and clothing. The unit price of food is Rs100 and the unit price of clothing is Rs250. Which of the following pairs of food and clothing are in the Waris's choice set?
A. 50 units of clothing and 50 units of food.
B. 20 units of clothing and 50 units of food.
C. 10 units of clothing and 25 units of food.
D. 0 units of clothing and 50 units of food.

114 If a household's money income is doubled,
A. the budget constraint will shift in and parallel to the old one.
B. the budget constraint is not affected.
C. the budget constraint will swivel outward at the Y-intercept.
D. **the budget constraint will shift out parallel to the old one**.

115 The curve that is traced out when we keep indifference curves constant and move the budget line parallel to its original position is
A. the income-consumption curve.
B. the Engel curve.
C. the demand curve.
D. the income-demand curve.

116 The curve that is traced out when we keep indifference curves constant and swivel the budget line at the Y-intercept to reflect a change the price of good X, is
A. the Engel curve.
B. the demand curve for X.
C. the substitution curve.
D. the price-consumption curve for X.

117 The curve that is traced out when we keep indifference curves and the total effective budget constant and only change the relative price of good X (i.e. slope of budget line) is:
A the Engel curve.
A. the demand curve for X.
B. the substitution curve.
C. the price-consumption curve for X.

118 If the income and substitution effects of a price increase work in the same direction the good whose price has changed is a
A. inferior good.
B. Giffen good.
C. normal good.
D. superior good.

119 If the price (or budget) line has a slope of -2 and it cuts indifference curve ICa at points P and R (given that the slope of ICaat point P is -4 and at point R is -1), the consumer can maximize utility by:
A. choosing consumption bundle P
B. choosing consumption bundle R
C. moving to a higher indifference curve
D. we don’t enough information to answer the question

120 Indifference curves cannot
A. be L shaped
B. be straight lines
C. intersect
D. all of the above

121 The main problem with marginal utility analysis is:
A. that it cannot solve problems involving more than two goods
B. its cardinal measurement of utility
C. its inability to explain the diamond-water paradox
D. all of the above

122 This question is about the demand for washing machines under uncertainty about whether the machine will turn out to be a good buy or a bad one. The odds ratio (OR) is defined as the ratio of the probability of the machine being good to the probability of the machine being bad. Let’s say the OR is < 1, and the consumer does not buy the machine. What can you conclude about the consumer’s attitude towards risk?
A. She is risk averse
B. She is risk neutral
C. She is risk loving
D. We do not have enough information to answer the question

123 The concept of diminishing marginal utility of income (DMUy) helps explain:
A. why a marginal dollar might have higher utility for a pauper than a millionaire
B. why the total utility curve (in Utility-Income space) is convex
C. why the average consumer is risk-averse

D. all of the above

124 "Moral hazard" and "adverse selection" are problems related to asymmetric information, that arise
A. in ex-ante and ex-post contexts, respectively
B. in ex-post and ex-ante contexts, respectively
C. in ex-ante contexts
D. in ex-post contexts

BACKGROUND TO SUPPLY/COSTS

125 Profit-maximising firms want to maximize the difference between
A. total revenue and total cost.
B. marginal revenue and marginal cost.
C. marginal revenue and average cost.
D. total revenue and marginal cost.

126 Which statement is FALSE?
A. Fixed costs do not depend on the firm's level of output.
B. **Fixed costs are zero if the firm is producing nothing**.
C. Fixed costs are the difference between total costs and total variable costs.
D. There are no fixed costs in the long run.

127 Which of the following is most likely to be a variable cost for a firm?
A. The monthly rent on office space that it leased for a year.
B. The franchiser's fee that a restaurant must pay to the national restaurant chain.
C. The interest payments made on loans.
D. Workers' wages.

128 The costs that depend on output in the short run are
A. total variable costs only.
B. both total variable costs and total costs.
C. total costs only.
D. total fixed cost only.

129 The short run, as economists use the phrase, is characterized by
A. a period where the law of diminishing returns does not hold.
B. **at least one fixed factor of production, and firms neither leaving nor entering** the industry.
C. all inputs being variable.
D. no variable inputs - that is all of the factors of production are fixed.

130 Diminishing marginal returns implies
A. increasing average fixed costs.
B. decreasing marginal costs.
C. decreasing average variable costs.
D. increasing marginal costs.

131 Which of the following is a correct statement about the relationship between average product (AP) and marginal product (MP)?
A. If AP is at a maximum, then MP is also.
B. If TP is declining then AP is negative.
C. If AP exceeds MP, then AP is falling.
D. If AP = MP, then total product is at a maximum.

132 If the total product of two workers is 80 and the total product of 3 workers is 90, then the marginal product of the third worker is _____ and the average product of the third worker is _____.
A. 270; 160
B. 3.33; 10
C. 10; 30
D. 30; 10

133 Engineers for Imran Bike Company have determined that a 15% increase in "all" inputs will cause a 15% increase in output. Assuming that input prices remain constant, you correctly deduce that such a change will cause _____ as output increases.
A. Long-run average costs to increase
B. Long-run marginal costs to increase
C. Long-run average costs to remain constant
D. Long-run average costs to decrease

1134 Suppose Isa Khan's Ice Cream experiences economies of scale up to a certain point and diseconomies of scale beyond that point. Its long-run average cost curve is most likely to be
A. upward sloping to the right.
B. U-shaped.
C. horizontal.
D. downward sloping to the right.

135 A graph showing all the combinations of capital and labour that can be used to produce a given amount of output is
A. an isocost line.
B. a production function.
C. an isoquant.
D. an indifference curve.

136 The rate at which a firm can substitute capital for labour and hold output constant is the
A. law of diminishing marginal returns.
B. marginal rate of technical substitution.
C. marginal rate of substitution.
D. marginal rate of production.

137 A graph showing all the combinations of capital and labour available for a given total cost is the
A. budget constraint.
B. isoquant.

C. expenditure set.
D. isocost line.

138 The formula for average fixed costs is
A. dTFC/dq.
B. TFC/q.
C. q/TFC.
D. TFC - q.

139 The formula for AVC is
A. q/TVC.
B. dTVC/dq.
C. dq/dTVC.
D. TVC/q.

140 Marginal revenue is
A. the additional profit the firm earns when it sells an additional unit of output.
B. the added revenue that a firm takes in when it increases output by one additional unit.
C. the difference between total revenue and total costs.
D. the ratio of total revenue to quantity.

141 A firm in a perfectly competitive industry is producing 50 units, its profit-maximising quantity. Industry price is Rs 2,000; total fixed costs are 25,000 and average variable costs are Rs 800. The firm's economic profit is
A. Rs 15,000.
B. Rs 25,000.
C. Rs 35,000.
D. Zero.

142 The amount of profit a firm makes can be shown on a diagram using
A. the AC and AR curves.
B. the MR and AR curves.
C. the AC and MC curves.
D. the MR and MC curves.

143 A firm's choice of profit-maximising output can be shown on a diagram using
A. the AC and AR curves.
B. the MR and AR curves.
C. the AC and MC curves.
D. the MR and MC curves.

144 A firm will shut down in the short run if
A. total variable costs exceed total revenues.
B. average cost exceeds price.
C. total costs exceed total revenues.
D. it is suffering a loss.

145 The concept of "interdependence of markets" can refer to the interdependence between:
A. two or more factor markets
B. goods and factor markets
C. goods markets
D. all of the above

146 The 'law of demand' implies that
A. as prices fall, quantity demanded increases.
B. as prices fall, demand increases.
C. as prices rise, quantity demanded increases.
D. as prices rise, demand decreases.

147 What effect is working when the price of a good falls and consumers tend to buy it instead of other goods?
A. the **substitution effect.**
B. the ceteris paribus effect.
C. the total price effect.
D. the income effect.

148 The quantity demanded (Qd) of a soft drink brand A has decreased. This could be because:
A. A's consumers have had an increase in income.
B. the price of A has increased.
C. A's advertising is not as effective as in the past.
D. the price of rival brand B has increased.

149 Demand curves in P-Q space are derived while holding constant
A. consumer tastes and the prices of other goods.
B. incomes, tastes, and the price of the good.
C. incomes and tastes.
D. incomes, tastes, and the prices of other goods.

150 Suppose the demand for good Z goes up when the price of good Y goes down. We can say that goods Z and Y are
A. perfect substitutes.
B. unrelated goods.
C. complements.
D. substitutes.

151 If the demand for coffee decreases as income decreases, coffee is
A. a normal good.
B. a complementary good.
C. an inferior good.
D. a substitute good.

152 Which of the following will NOT cause a shift in the demand curve for compact discs?
A. a change in the price of pre-recorded cassette tapes.
B. a change in wealth.
C. a change in income.
D. a change in the price of compact discs.

153 Which of the following is consistent with the law of supply?
A. As the price of calculators rises, the supply of calculators increases, ceteris paribus.
B. As the price of calculators falls, the supply of calculators increases, ceteris paribus.
C. **As the price of calculators rises, the quantity supplied of calculators increases, ceteris paribus**.
D. As the price of calculators rises, the quantity supplied of calculators decreases, ceteris paribus.

154 The price of computer chips used in the manufacture of personal computers has fallen. This will lead to _____ personal computers.
A. a decrease in the supply of
B. a decrease in the quantity supplied of
C. an increase in the supply of
D. an increase in the quantity supplied of

155 When there is excess demand in an unregulated market, there is a tendency for
A. quantity demanded to increase.
B. quantity supplied to decrease.
C. price to fall.
D. price to rise.

156 Equilibrium in the market for good A obtains
A. when there is no surplus or shortage prevailing in the market
B. where the demand and supply curves for A intersect
C. when all of what is produced of A is consumed
D. all of the above

157 A shift in the demand curve (drawn in the traditional Price-Quantity space) to the left may be caused by
A. a decrease in supply.
B. a fall in income.
C. a fall in the price of a complementary good.
D. a fall in the number of substitute goods.

Assume the good is normal

158 A shift in the demand curve (drawn in Income-Quantity space) to the left may be caused by
A. a fall in the price of a complementary good.
B. a fall in income.
C. a change in tastes such that consumers prefer the good more.
D. a rise in the number of substitute goods.

Assume the good is normal

159 A movement along the demand curve (drawn in Quantity-Price space) to the left may be caused by
A. an increase in supply.
B. a rise in income.
C. a rise in the price of a complementary good.
D. a fall in the number of substitute goods.

Assume the good is normal

160 When the market operates without interference, price increases will distribute what is available to those who are willing and able to pay the most. This process is known as
A. price fixing.
B. quantity setting.
C. quantity adjustment.
D. price rationing.

161 How many different equilibria can obtain when you allow for shifts in the demand and/or the supply curves?
A. 2
B. 4
C. 8
D. 16

162 What will happen to equilibrium price and quantity when the demand curve shifts to the left and the supply curve shifts to the right
A. price falls unambiguously but the effect on quantity cannot be determined
B. both price and quantity falls unambiguously
C. quantity falls unambiguously but the effect on price cannot be determined
D. the effect on both price and quantity cannot be determined

163 What will happen to equilibrium price and quantity when both the demand and supply curves shift to the left
A. price falls unambiguously but the effect on quantity cannot be determined
B both price and quantity falls unambiguously
C. quantity falls unambiguously but the effect on price cannot be determined
D. the effect on both price and quantity cannot be determined

164 A price ceiling imposed by the government can cause a shortage (excess demand)
A. when the price ceiling is above the free (or unregulated) market price
B. **when the price ceiling is below the free (or unregulated) market price**
C. when the price ceiling is equal to the free (or unregulated) market price
D. either of the above

165 What is the effect of imposing a fixed per unit tax on a good on its equilibrium price and quantity?
A. Price falls, quantity rises

B. Price rises, quantity falls
C. Both price and quantity fall
D. Both price and quantity rise

166 A price floor is
A. a maximum price usually set by government, that sellers may charge for a good or service.
B. **a minimum price usually set by government, that sellers must charge for a good or service**.
C. the difference between the initial equilibrium price and the equilibrium price after a decrease in supply.
D. the minimum price that consumers are willing to pay for a good or service.

167 The need for rationing a good arises when
A. there is a perfectly inelastic demand for the good.
B. supply exceeds demand.
C. demand exceeds supply.
D. a surplus exists.

168 If the "regulated-market" price is below the equilibrium (or "free-market" price) price,
A. **the quantity demanded will be greater than quantity supplied**.
B. demand will be less than supply.
C. quantity demanded will be less than quantity supplied.
D. quantity demanded will equal quantity supplied.

169 If a government were to fix a minimum wage for workers that was higher than the market-clearing equilibrium wage, economists would predict that
A. more workers would become employed.
B. there would be more unemployment.
C. the costs and prices of firms employing cheap labour would increase.
D. wages in general would fall as employers tried to hold down costs.

170 The process by which resources are transformed into useful forms is
A. capitalisation.
B. consumption.
C. allocation.
D. production.

171 The concept of choice would become irrelevant if
A. capital were eliminated.
B. scarcity were eliminated.
C. we were dealing with a very simple, one-person economy.
D. poverty were eliminated.

172 Which of the following is not a resource as the term is used by economists?
A. money.
B. land.
C. buildings.
D. labour.

173 Capital, as economists use the term,
A. is the money the firm spends to hire resources.
B. is money the firm raises from selling stock.
C. refers to the process by which resources are transformed into useful forms.
D. **refers to things that have already been produced that are in turn used to** produce other goods and services.

174 Opportunity cost, most broadly define, is
A. the additional cost of producing an additional unit of output.
B. what we forgo, or give up, when we make a choice or a decision.
C. a cost that cannot be avoided, regardless of what is done in the future.
D. the additional cost of buying an additional unit of a product.

175 A graph showing all the combinations of goods and services that can be produced if all of society's resources are used efficiently is a
A. demand curve.
B. supply curve
C. **production possibility frontier**.
D. circular-flow diagram.

176 Periods of "less than full employment" of resources correspond to
A. points on the ppf.
B. points outside the ppf.
C. either points inside or outside the ppf.
D. points inside the ppf.

177 What lies is at the heart of the allocation of goods and services in a free-market economy?
A. Concerns of equity or equal distribution among individuals.
B. The order or command of the ruling government or dictator.
C. The wishes of consumers in the market.
D. The price mechanism.

178 The phrase 'ceteris paribus' is best expressed as
A. 'all else equal.'
B. 'everything affects everything else.'
C. 'scarcity is a fact of life.'
D. 'there is no such thing as a free lunch.'

179 Laboratory (or controlled) experiments cannot be performed in economics because:
A. of resource scarcity.
B. economics is a natural science.

C. of the difficulty of distinguishing between normative and positive statements.
D. economics is a social science.

180 Positive statements are:
A. value judgments
B. verifiable or testable
C. statements in the affirmative
D. good statements

181 The former Soviet Union was an example of:
A. a **planned economy**
B. free-market/capitalism
C. dictatorship
D. a mixed economy

182. Rational choice or rational decision-making involves
A. comparing the net benefit of a choice with the total net benefit foregone of all the alternatives combined
B. weighing up total costs and total benefits associated with a decision
C. **weighing up marginal costs and marginal benefits associated with a decision**
D. all of the above.

183 The PPF can be used to illustrate:
A. the principle of opportunity costs and increasing opportunity costs
B. the distinction between micro and macroeconomics
C. efficient, infeasible and inefficient production combinations
D. **all of the above**

MARKET STRUCTURES & SELECTED ISSUES IN MICROECONOMICS

185 If you were running a firm in a perfectly competitive industry you would be spending your time making decisions on
A. **how much of each input to use**.
B. how much to spend on advertising.
C. what price to charge.
D. the design of the product.

186 Market power is
A. a firm's ability to charge any price it likes.
B. a firm's ability to raise price without losing all demand for its product.
C. a firm's ability to sell any amount of output it desires at the market-determined price.
D. a firm's ability to monopolise a market completely.

187 When _____ substitutes exist, a monopolist has _____ power to raise price.
A. more; more
B. fewer; less
C. no; infinite
D. more; less

188 If a firm has some degree of market power, then output **price**
A. becomes a decision variable for the firm.
B. is determined by the actions of other firms in the industry.
C. no longer influences the amount demanded of the firm's product.
D. is guaranteed to be above a firm's average cost.

189 Relative to a competitively organised industry, a monopoly
A. produces less output, charges lower prices and earns economic profits.
B. produces more output, charges higher prices and earns economic profits.
C. produces less output, charges higher prices and earns economic profits.
D. produces less output, charges lower prices and earns only a normal profit.

190 The cosmetics industry is not considered by economists to be a good example of perfect competition because
A. **firms spend a large amount of money on advertising**.
B. profit margins are very high for both producers and retailers.
C. there are a very large number of firms in the industry.
D. there are many government health controls on cosmetic products.

191 If firms can neither enter nor leave an industry, the relevant time period is the
A. long run.
B. immediate run.
C. intermediate run.
D. short run.

192 In the long run
A. there are no fixed factors of production.
B. all firms must make economic profits.
C. a firm can vary all inputs, but it cannot change the mix of inputs it uses.
D. a firm can shut down, but it cannot exit the industry.

193 A normal rate of profit
A. is the rate of return on investments over the interest rate on risk-free government bonds.
B. **is the rate that is just sufficient to keep owners or investors satisfied**.
C. Means zero return for owners or investors.
D. is the difference between total revenue and total costs.
E.

194 If Wafa Enterprises is earning a rate of return greater than the return necessary for the business to continue operations, then
A. total costs exceed normal profit.
B. **the firm is earning an economic profit**.
C. normal profit is zero.

D. total costs exceed total revenue.

195 Economic profits are

A. the difference between total revenue and total costs.

B. anything greater than the normal opportunity cost of investing.

C. a rate of profit that is just sufficient to keep owners and investors satisfied.

D. the opportunity costs of all inputs.

196 The slope of the marginal revenue curve is

A. the same as the slope of the demand curve.

B. half as steep as the demand curve.

C. twice as steep as the demand curve.

D. always equal to one.

197 In a monopoly, marginal revenue is

A. less than price at low levels of output and greater than price at high levels of output.

B. always greater than price.

C. lower than price for all units other than the first.

D. always equal to price.

198 Suppose we know that a monopolist is maximising her profits. Which of the following is a correct inference? The monopolist has

A. maximised the difference between marginal revenue and marginal cost.

B. maximised its total revenue.

C. equated marginal revenue and marginal cost.

D. set price equal to its average cost.

199 An industry that realises such large economies of scale in producing its product that single-firm production of that good or service is most efficient is called

A. an economies of scale monopoly.

B. a natural monopoly.

C. a government franchise monopoly.

D. a fixed cost monopoly.

200 How can a government regulate a monopoly firm making supernormal profits so that a "socially optimal" outcome obtains:

A. set the firm's price (and quantity) corresponding to the point where the MC curve intersects the AC curve from below.

B. set the firm's price (and quantity) corresponding to the point where the MC curve intersects the MR curve from below.

C. set the firm's price (and quantity) corresponding to the point where the MR curve intersects the AC curve and AC>MR after that point.

D. set the firm's price (and quantity) corresponding to the point where the AR curve intersects the MC curve and MC>AR after that point.

201 Monopolistic competition differs from perfect competition primarily because

A. in perfect competition, firms can differentiate their products.

B. **in monopolistic competition, firms can differentiate their products**.

C. in monopolistic competition, there are relatively few firms.

D. in perfect competition, there are no barriers to entry.

202 In monopolistic competition, firms achieve some degree of market power

A. **by producing differentiated products**.

B. because of barriers to entry into the industry.

C. because of barriers to exit from the industry.

D. by virtue of size alone.

203 A monopolistically competitive firm that is incurring a loss will produce as long as the price that the firm charges is sufficient to cover

A. advertising costs.

B. fixed costs.

C. marginal costs.

D. variable costs.

204 A firm in a monopolistically competitive industry

A. must lower price to sell more output.

B. sells a fixed amount of output regardless of price.

C. can sell an infinite amount of output at the market-determined price.

D. must raise price to sell more output.

205 The "long-run" equilibrium outcomes in monopolistic competition and perfect competition are similar in the sense that under both market structures

A. firms will only earn a normal profit.

B. the efficient output level will be produced in the long run.

C. firms will be producing at minimum average cost.

D. firms realise all economies of scale.

206 A form of industry structure characterised by a few firms each large enough to influence market price is

A. monopolistic competition.

B. monopoly.

C. perfect competition.

D. oligopoly.

207 When one firm in the cooking oil market started an advertising campaign that stressed the nutritional value of its cooking oil, all other cooking oil manufacturers started similar advertising campaigns. This suggests that the cooking oil market is

A. monopolistically competitive.

B. oligopolistic.

C. perfectly competitive.

D. indeterminate from this information.

208 An industry that has a relatively small number of firms that dominate the market is called
A. a natural monopoly.
B. a colluding industry.
C. a merged industry.
D. a concentrated industry.

209 Assume that firms in an oligopoly are currently colluding to set price and output to maximise total industry profit. If the oligopolists are forced to stop colluding, the price charged by the oligopolists will _____ and the total output produced will _____.
A. increase; decrease
B. increase; increase
C. decrease; decrease
D. decrease; increase

210 A group of firms that gets together to make price and output decisions is called
A. a non-collusive oligopoly.
B. price leadership.
C. a cartel.
D. a concentrated industry.

211 In which of the following circumstances would a cartel be most likely to work?
A. The coffee market, where the product is standardised and there are a large number of coffee growers.
B. The automobile industry, where there are few producers but there is great product differentiation.
C. The market for copper, where there are very few producers and the product is standardised.
D. The fast-food market, where there are a large number of producers but the demand for fast food is inelastic.

212 A collusive oligopoly (with a dominant price leader) will produce a level of output
A. that would prevail under perfect competition.
B. between that which would prevail under perfect competition and that which a monopolistic competitor would choose in the same industry.
C. between that which would prevail under perfect competition and that which a monopolist would choose in the same industry.
D. **equal to what a monopolist would choose in the same industry**.

213 The kinked demand curve model of oligopoly assumes that the price elasticity of demand
A. **in response to a price increase is more than the elasticity of demand in response to a price decrease**.
B. is constant regardless of whether price increases or decreases.
C. is infinite if price increases and zero if price decreases.
D. in response to a price increase is less than the elasticity of demand in response to a price decrease.

214 Price discrimination involves
A. firms selling different products at different prices to different consumers.
B. firms selling the same product at different prices to different consumers.
C. consumers discriminating between different sellers on the basis of the different prices they quote for different products.
D. consumers discriminating between different sellers on the basis of the different prices they quote for the same product.

215 Price discrimination often favours public interest because it
a) allows some products to be produced that would otherwise not be produced in the economy due to the fear of making losses.
b) opens consumption possibilities to consumers that would otherwise not be inaccessible (or unaffordable) if a single price prevailed in the market.
c) allows firms to make supernormal profits which in turn allows them to sustain price wars when breaking into new markets.
d) all of the above

216 Oligopolistic firms making their price-output decisions keeping in view the current and possible future decisions of their rival firms, is an example of:
A. Strategic interaction
B. Prisoner's dilemma
C. Price leadership
D. None of the above

217 Given the following table, what would Firm A, which is a firm operating in a duopoly (along with firm B) do, if it were following a maximin strategy?

(p stands for profit or payoff)		**STRATEGY FOR FIRM A**	
		Not lower price	Lower price
STRATEGY FOR FIRM B	Not lower price	p_A = Rs 400m	p_A = Rs 300m
	Lower price	p_A = Rs 100m	p_A = Rs 200m

A. Lower its price
B. Not lower its price
C. We do not have information on p_B so we cannot answer the question
D. None of the abov

218 Which of the following would NOT constitute a pure public good?
A. National defense.
B. A new national holiday.
C. Free health service.
D. National environmental protection.

219 One of the characteristics of a public good, X, is that it is "non-rival". It means:
A. It is not possible to exclude anyone from using (or benefiting from) X.
B. There is no substitute for X.
C. One person's use of X does not affect another person's ability to use (or benefit from) X.

D. None of the above.

220 Why might advertising exceed its socially optimal level?

A. Because the marginal social costs of advertising are less than the marginal private costs.

B. Because private firms do not or cannot incorporate marginal external costs when deciding how much to advertise.

C. The marginal external benefit to advertising is not taken into account by firms.

D. None of the above**.**

221 If $MSB_X > MPB_X$, what can the government do to align the market outcome with the social optimum:

A. Impose a consumption tax.

B. Impose a production tax.

C. Provide a consumption subsidy.

D. Provide a production subsidy

222 If the VMP for labour > the MRP for labour, and there is no government intervention, you can conclude that the underlying market structure is:

A. a monopoly.

B. perfect competition.

C. not perfect competition.

D. none of the above.

223 A backward bending labour supply curve (roughly similar in shape to an inverted C) obtains when the income effect of a wage rise (beyond a certain wage level) dominates the substitution effect. If it was also the case that the income effect of a wage reduction (below a certain wage level) dominated the substitution effect, what would the complete labour supply curve roughly look like in "wage-hours worked" space?

A. a 3.

B. an inverted 3.

C. an S.

D. an inverted S.

224 A firm is considering the project of buying an ice-cream producing machine costing Rs.1,000,000 that will serve for 10 years and then have a scrap value of Rs. 110,000 at the end of 10 years. If the present value of the net ice-cream sales revenues that the machine will generate is Rs.900,000, then, assuming a 10% annual discount rate:

A. the firm should not buy the machine because the NPV associated with the overall project is negative.

B. the firm should be indifferent between buying and not buying because the NPV of the overall project is zero.

C. The firm should buy the machine because the NPV of the overall project is positive.

D. None of the above.

225 If the quarterly rent from a house is Rs.5,000, the annual interest rate is fixed at 5%, and housing market conditions are stable, what would you expect the market price of the house to be?

A. Rs.100,000

B. Rs.200,000

C. Rs.400,000

D. Rs.800,000

226 There are many differences between labour and land as factors of production, for e.g.:

A. Labour cannot be purchased like land, it can only be rented.

B. There is no obvious reason why landowners will reduce the supply of land when the rental price of land goes up.

C. The decision to hire labour does not directly depend on the interest rate.

D. All of the above.

227 Information products are unique in that the marginal cost of _____ the product is virtually zero.

A. producing

B. distributing

C. accessing

D. all of the above